

Creating A Strong Credit Profile

How WOSB/EDWOSB Can Establish & Improve Their Business Credit Score

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Objectives

- Learn what makes up your business credit score.
- Understand the value of building business credit
- How to build it, and to maintain it.

Topics

1. Definition of Business Credit
2. Did You Know?
3. Why You Need Business Credit
4. Business vs. Personal Credit
5. Business Credit Profile
6. Types of Credit
7. What to Look for In Business Credit Card
8. Know Your Business's Credit Score
9. Business Credit Bureaus
10. Score Comparison
11. Factors Determining Score
12. Managing Your Business Credit
13. Risk Factors
14. Do's and Don'ts
15. Resources

Definition of Business Credit

Business credit is defined as credit extended by one business (the creditor) to another business (the borrower).

Did You Know?

3 out of 5
small
businesses
use business
credit cards

4 out of 5
small
businesses
use credit
cards for
working
capital

Half of all small
businesses pay
off the balances
of their business
credit cards
every month

3 out of 5 small businesses opened a credit card by their fourth year of operation, an 4 out of 5 do so by their ninth year.

Business Credit Facts

- According to the NSBA (National Small Business Association) Small Business Access to Capital Study, 20% of small business loans are denied due to business credit.
- Many lenders consider a business credit score of 75 as “acceptable”
- The average business needs 12-18 months to improve its business credit score.
- 46% of all small businesses use personal credit cards.
- Many small businesses fail to separate business and personal expenses.

<https://www.sba.gov/blogs/10-stats-explain-why-business-credit-important-small-business>

WOSB/EDWOSB Workshop

Why You Need Business Credit

- Maximize your business financing options.
- Help you obtain better credit terms.
- Easier for creditors to assess your company's overall creditworthiness.
- Limits your personal liability for business debts.
- Business credit builds credibility for your company.
- Ability to extend your company's cash flow.

5 Ways to Get Credit for Your Business

1. Get Payment Terms from Suppliers
2. Apply for a Business Credit Card
3. Open a Service Agreement for your Company
4. Open a Secured Business Credit Card
5. Apply for a Retail Credit Account

Business vs. Personal Credit

- Changes to personal credit gets reported to the major credit bureaus, e.g.: Experian, Equifax, or TransUnion
- Consumer creditors are required by law to notify consumers 45 or 60 days ahead of changes to their credit terms and conditions.

Business vs. Personal Credit

- Business creditors are not required to report to any specific credit bureau, such as Dun & Bradstreet, Experian or FICO for Business.
- Business creditors are not required by law to notify business owners of changes to terms and conditions.

Business Credit Profile

- Payment and banking data from suppliers and creditors
- Suits, liens and judgments
- Uniform Commercial Codes³ (UCC)
- Business registrations (state, city, county, etc.)
- Incorporation and bankruptcy filings from state and county courts
- Corporate financial reports

Business Credit Profile

- Contracts, grants, loans, and debarments from the Federal government
- News and media stories and company press releases
- Direct investigations and interviews with company principals (i.e., self-reported data)
- Other companies that have provided a company credit are a source of information

Types of Cards

Choose Business Credit Cards WITH:

1. Cash Back options
2. Low Interest Rates
3. Travel Rewards
4. Zero-Interest
5. Balance Transfers
6. Gas Rewards
7. Cash Advance Options



Questions to Ask When Shopping for Credit

- Annual fee
- Annual percentage rate (APR)
- Minimum payment
- Computation method
- Grace period
- Finance charges
- Card incentives

What to Look For in a Business Credit Card

- Interest Rate
- Available Balance
- Fees
- Other Terms (Grace Period and Other Fees)
- Rewards and Signup Bonuses
- Card Liability
- Other Services

Business Credit Bureaus

3 major credit bureaus

- Dunn & Bradstreet
- Experian
- FICO for Small Business

Source: www.Nav.com

Business Credit Bureaus

DUNN & BRADSTREET (D&B)

- D&B is the only bureau that focuses strictly on business credit.
- Most potential suppliers check your D&B reports before they offer your business credit terms.
- D&B performance-based scores represent a business' past performance over the last 24 months.

Source: www.Nav.com

Dun & Bradstreet (D&B)

- Dun & Bradstreet, Inc. is a company that provides commercial data, analytics and insights for business.
- Often referred to as **D&B**.
- Headquartered in Short Hills, a community in Millburn, New Jersey, US.
- D&B's database contains more than 280+ million business records worldwide.

Source: www.Nav.com

Dun & Bradstreet (D&B)

D&B uses 3 predictive-based scores designed to forecast how your business will perform over the next 12 months

1. THE DELINQUENCY PREDICTOR SCORE:

This score predicts whether or not a business is likely to pay their bills on time.

Source: www.Nav.com

Dun & Bradstreet (D&B)

2. THE FINANCIAL STRESS SCORE:

This score predicts the likelihood a business will experience financial distress during the next 12 months.

3. THE SUPPLIER EVALUATION RISK RATING:

This rating predicts whether or not a business might stop delivering goods and services.

Source: www.Nav.com

Dun & Bradstreet (D&B)

D&B performance-based scores represent a business' past performance over the last 24 months.

- PAYDEX Score
- D&B Rating

Dun & Bradstreet (D&B)

PAYDEX Score:

- The PAYDEX score is 100-point scoring process used by Dun & Bradstreet
- Most well-known credit score for businesses.
- The higher your score the better.
- PAYDEX score is a reflection of your payment history with vendors that report to D&B.

Dun & Bradstreet (D&B)

PAYDEX Score:

- If you have good relationships with your suppliers and keep your account balances current, but they don't report to D&B, that information won't be included when calculating your PAYDEX score.
- You should encourage your current vendors to report your credit history to D&B
- Consider changing vendors to those who report to D&B if your current vendors won't.

Dun & Bradstreet (D&B)

D&B Rating:

- Based on company's financial statements.
- Other public information to indicate a company's net worth and financial health.
- If there is no other information available, D&B will rely on potentially inaccurate public data and make assumptions with information like industry size and classification.

Note: Submit accurate and up-to-date financial statements to help improve this score.

What's a D-U-N-S Number?

- The D-U-N-S Number is a unique nine-digit identifier for businesses.
- D-U-N-S stands for Data Universal Number System.
- It is used to establish a business credit file.
- D-U-N-S Number is often referenced by lenders and potential business partners to help predict the reliability and/or financial stability of the company in question.
- It is used to maintain accurate and timely information on +280M global businesses.

D&B D-U-N-S Number

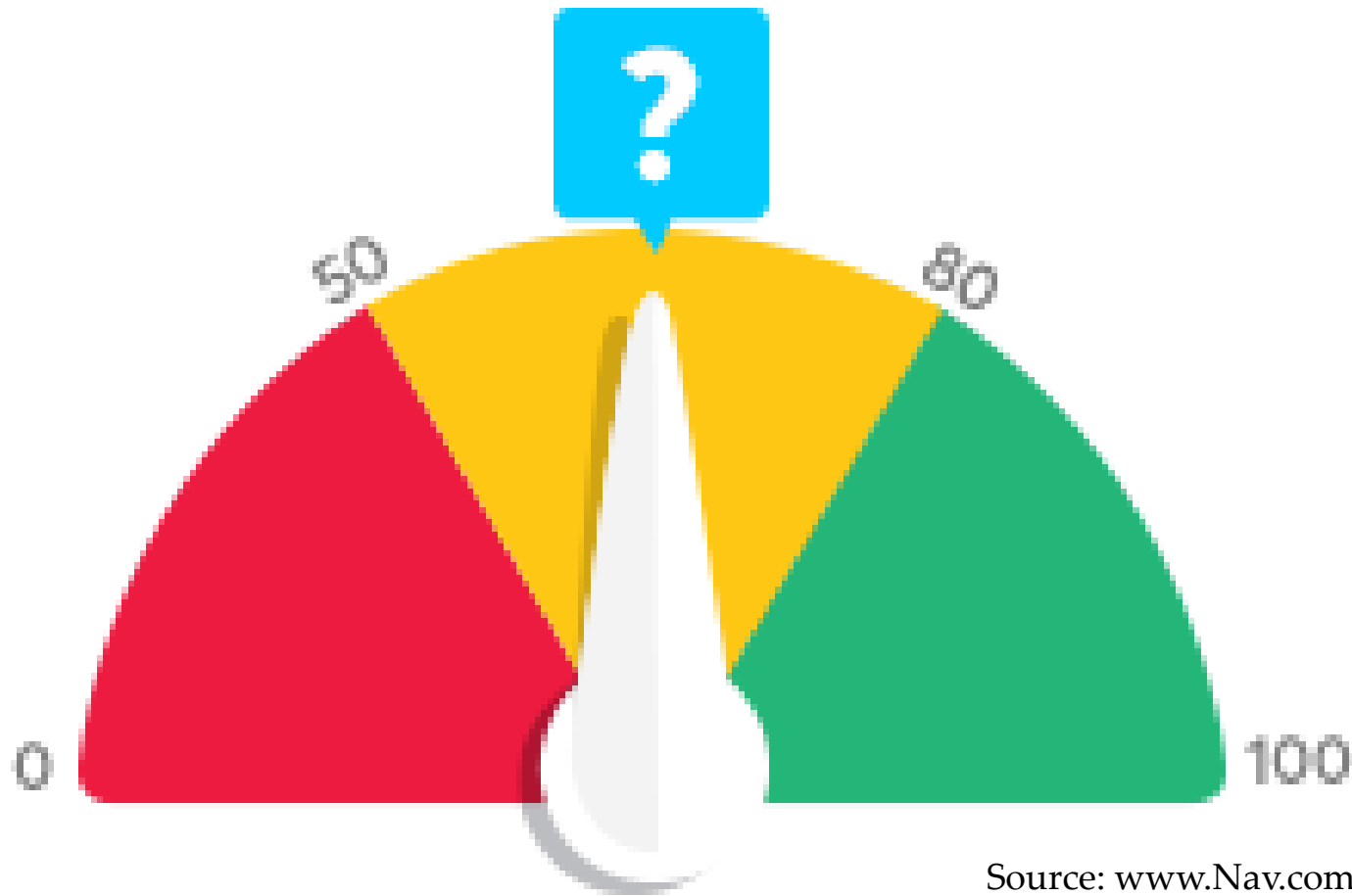
GOVERNMENT:

A D-U-N-S Number is required to do business with the Federal government and most State and Local agencies.

FORTUNE 500 COMPANIES:

Most Fortune 500 companies requires a D-U-N-S Number when applying to them to contract, consult or be a supplier.

Know Your Business's Credit Score



Source: www.Nav.com

Dun & Bradstreet PAYDEX

Paydex Range:	Paydex Risk Interpretation:
80 – 100	LOW risk of late payment (averages prompt to 30 days within terms)
50 – 79	MEDIUM risk of late payment (averages 30 or less beyond terms)
0 – 49	HIGH risk of late payment (averages 30 to 120 days beyond terms)

D&B Pricing

CREDIT EVALUATOR PLUS™

\$61.99

Basic Business Credit Report for Simple Credit Decisions

<https://businesscredit.dnb.com/product/credit-evaluator-report/>

BUSINESS INFORMATION REPORT™

\$121.99

Detailed Business Credit Report for Business Credit Decisions

<https://businesscredit.dnb.com/product/business-information-report/>

Experian Intelliscore PlusSM

- Experian, Intelliscore PlusSM combine business and proprietor credit data to predict the likelihood of serious delinquency in the next 12 months.
- Score ranges from 1 to 100
- The Intelliscore PlusSM is regarded in the credit industry as quite predictive and economical.

Experian Intelliscore PlusSM

It incorporates statistical modeling using over 800 commercial and owner variables – including:

- Tradeline and collection information
- Recent credit inquiries
- Public filings
- New account activity
- Key financial ratios

Experian Intelliscore PlusSM

SCORE RANGE	RISK CLASS	RISK DESCRIPTION
76 – 100	1	Low
51 – 75	2	Low – Medium
26 – 50	3	Medium
11 – 25	4	High – Medium
1 – 10	5	High

FICO® LiquidCredit® Small Business Scoring ServiceSM

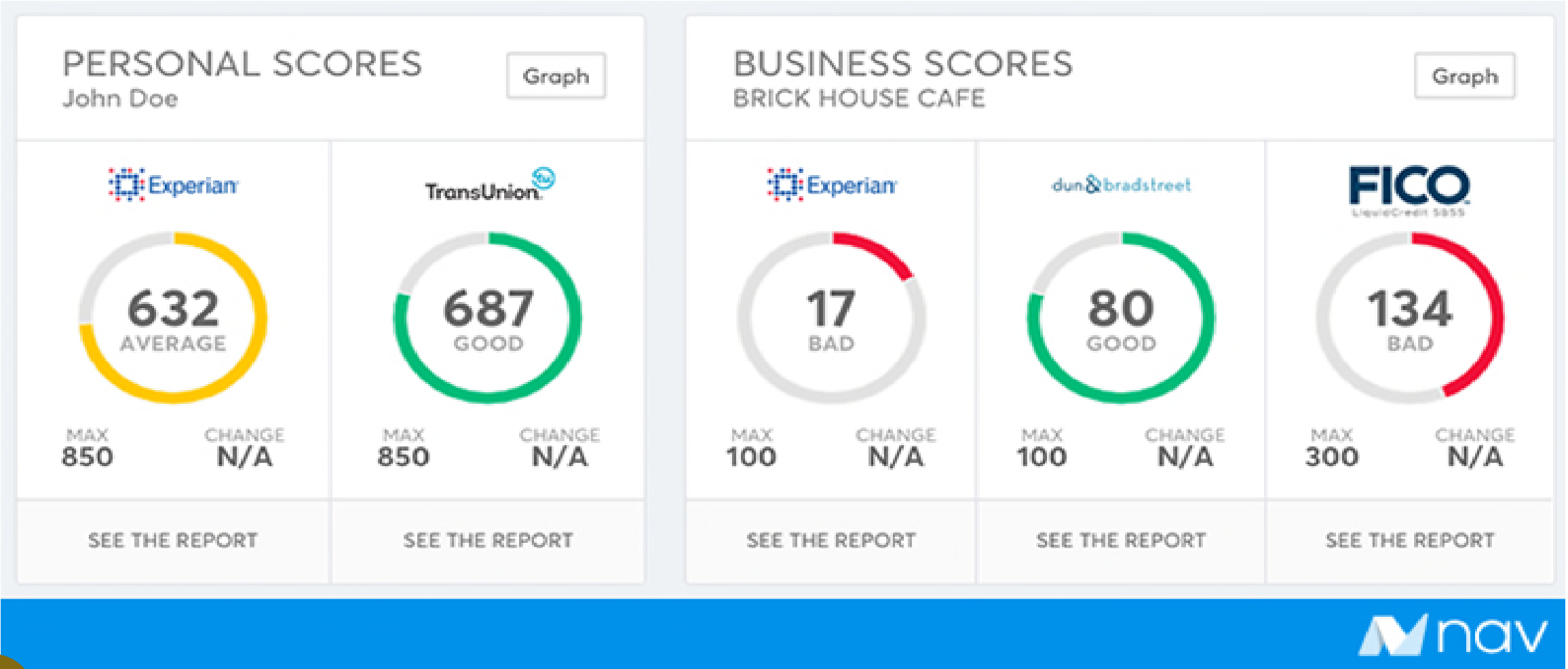
- The score ranges from 0 to 300.
- The higher the score, the better.
- The scoring is based upon personal and business credit history and other financial information.
- A strong history of business credit with timely payments to vendors and suppliers may help boost your SBSS score.

FICO® LiquidCredit® Small Business Scoring ServiceSM

U.S. Small Business Administration

- The FICO SBSS score will be used for term loans, lines of credit, and commercial loans up to \$350,000 from the Small Business Administration (SBA).
- The minimum score to pass the SBA's pre-screen process is currently 140.

Score Comparison



Business Credit Cards vs. Personal Credit Cards

	Consumer	Business
Typical Annual fees	\$0 or other low fee	\$0 to \$495
Fee break-even point	Minimal purchases typically required to earn usable rewards	Often need to make \$1,000+ in monthly purchases to earn usable rewards
Points	Wide variety of purchase categories, depending on the card	Typically available for travel, office supplies, phone service, cable TV, internet service Other points programs are available
Redeeming points	Generally more restrictive and earlier expiration date	Tend to be easier to convert with later expiration date
Credit limits	Tend to be lower than business cards, but varies by card issuer and consumer's credit history	Typical range is between \$5,000 and \$50,000. Tend to be 10 -100 times higher, especially for businesses with established credit history. Sometimes, issuer does not impose a credit limit

Factors that Determine Business Credit Scores

Here are some of the variables:

- Credit utilization ratio
- Payment history
- Length of credit history
- Outstanding debts
- Public records, such as bankruptcies, liens and judgments
- Company size
- Industry risk

Managing Your Business Credit

- Pay your bills early or on time.
- Use your business credit wisely.
- Do not max out your cards.
- Keeping a low credit utilization can help you when seeking financing.

Improving Your Business Credit Score

- Pay your business bills on-time or before they're due.
- Open multiple credit accounts (business credit cards, trade lines, loans).
- Keep your credit utilization around 25% or lower .
- Don't max out your credit lines!

Data Length on Credit Report

Trade Data: 3 years

Bankruptcy: 10 years

Judgments: 7 years

Tax Liens: 7 years

UCC Filings 5 years

Collections: 7 years

Bank, Gov, Leasing Data: 3 years

Do's & Don'ts

- Do not buy a *shelf corporation to build business credit.
- Do not try to use your Federal Employer Identification Number to apply for personal credit.
- Do not try to build business credit as Sole Proprietor.
- Do not try to use your business credit to replace your poor personal credit.

***A shelf corporation, shelf company, or aged corporation is a company or corporation that has had no activity. It was created and left with no activity.**

<https://www.nav.com/resource/shelf-corporations/>

Do's & Don'ts

- Pay your credit cards on time.
- Do not keep too low a profile.
- Prepare for cash flow crunches.
- Do pay your taxes – if not it will show up on you credit.
- Do not ignore the fine print on loans.

Risk Factors

- **Higher interest rates.** Interest rates on some business credit cards can be painfully high.
- **Overnight changes in terms.** Credit card issuers could change the terms of the card agreement at any time – this is prohibited in regular consumer cards.
- **Changing due dates.** Unlike a consumer credit card, a business card issuer can set a different due date every month, making it much easier to miss a payment.

Risk Factors

- **More penalties.** If you do miss a due date, the business card issuer can immediately raise the rate on your entire balance.
- **Unpredictable rate increases.** Unlike consumer credit cards, which require a 45-day notice, the rate on a business credit card can be changed without notice.

Risk Factors

- **Most business credit card are variable.** Interest rate depends on how the prime rate changes.
- **Liability for employee purchases.** Track employee purchases and have written policies on what the cards can be used for, because you're the one who's liable for the purchases.

How a Business Credit Card Compares With Business Loans

	Business Credit Card	Traditional Bank	Alternative Lender	Crowd Funding or Peer2Peer Lender (P2P)	Friends or Family
Best for Businesses in This Growth Stage	Startup Established	Established	Startup Established	Startup: Crowdfunding Established: P2P lender	Flexible Case-by-case circumstances
Approval Time	Quick: Often less than 24 hours	Extended wait: Several weeks to several months	Quick: Sometimes in a few minutes but usually 24-48 hours	Depends on parameters set up by applicant, often several days or a week	Flexible Can be quick but case-by-case circumstances.
Collateral Requirement	No collateral required Many issuers require personal guarantee	Collateral often required but not always.	No collateral required	No collateral required Amounts received are considered donations. Sometimes donor receives equity stake in company	Flexible Case-by-case determination, but often no collateral required

Resources

<http://www.dnb.com/>

<http://www.dnb.com/duns-number.html>

<http://www.experian.com/small-business/business-credit-reports.jsp>

<http://www.fico.com/>